



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GARRARD COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2000

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GARRARD COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Auditor of Public Accounts has completed the Garrard County Fiscal Court audit for fiscal year ended June 30, 2000. We have provided a disclaimer of opinion on the financial statements taken as a whole due to a scope limitation imposed by the failure of Garrard County Memorial Hospital, a material component unit of Garrard County Fiscal Court, to obtain audited financial statements for its years ended September 30, 1998, 1999, and 2000.

Financial Condition:

Fund balances decreased by \$56,723 from the prior fiscal year, resulting in a decrease in cash surplus of \$56,723 as of June 30, 2000. Revenues increased by \$333,534 from the prior year and disbursements increased by \$419,200.

Debt Obligations:

Capital lease principal agreements totaled \$1,148,096 as of June 30, 2000. Future principal and interest payments of \$1,546,700 are needed to meet these obligations.

Report Comments:

- County Debt Obligations Were Not Represented On Quarterly Report Presented To The Fiscal Court And The State Local Finance Officer As Required By KRS 68.360(2)
- The Fiscal Court Should Monitor Audits Of County Component Units

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable E. J. Hasty, Garrard County Judge/Executive
Members of the Garrard County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Garrard County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Garrard County Fiscal Court.

The Garrard County Memorial Hospital and Long Term Care Facility is a material component unit of Garrard County. The hospital is to contract its audit to be performed by other auditors. We were unable to obtain an audit of the Garrard County Memorial Hospital and Long Term Care Facility for fiscal years ending September 30, 2000, 1999, or 1998. The county has assisted the hospital in obtaining an extensive amount of debt to meet payroll and operating expenses. As of June 30, 2000, outstanding principal of debt acquired for the hospital totaled \$1,160,196. Subsequent to June 30, 2000, an additional \$1,012,000 was obtained. Due to the large amount of financing the hospital needs to meet ordinary operating expenses and payroll, we question its ability to continue as a going concern.

Since the Garrard County Memorial Hospital and Long Term Care Facility has not had an audit completed since fiscal year ending September 30, 1997, and we are unable to satisfy ourselves as to the financial position of the facility, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

Garrard County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
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In accordance with Government Auditing Standards, we have also issued our report dated May 17, 2001, on our consideration of Garrard County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of financial statements of Garrard County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 17, 2001

GARRARD COUNTY OFFICIALS

Fiscal Year Ended June 30, 2000

Fiscal Court Members:

E.J. Hasty	County Judge/Executive
Marvin Conn	Magistrate
F.C. Foley	Magistrate
Norman Davis	Magistrate
Ronnie Lane	Magistrate
Doug Miller	Magistrate

Other Elected Officials:

Jeff Moss	County Attorney
Kenny Tuggle	Jailer
Shelton Moss	County Clerk
Jennifer Grubbs	Circuit Court Clerk
Ronnie Wardrip	Sheriff
Marsha McQueary	Property Valuation Administrator
Carla Henderson	Coroner

Appointed Personnel:

Louise Robinson	County Treasurer
Louise Robinson	Occupational Tax Collector
Angela Bowling	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

GARRARD COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets and Other Resources

Assets

General Fund Type

General Fund:	
Cash	\$ 216,697
Road and Bridge Fund:	
Cash	76,451
Jail Fund:	
Cash	2,010
Local Government Economic Assistance Fund:	
Cash	7,589
E-911 Fund:	
Cash	213,584
CSEPP-EMS Fund:	
Cash	15
Payroll Revolving Account - Cash	4,481

Capital Projects Fund Type

CDBG-Grant Fund:	
Cash	163

Other Resources

General Fund Type

General Fund:	
Amounts to be Provided in Future Years for Capital	
Lease Principal Obligations - Health Department	366,000
Amounts to be Provided in Future Years for Capital	
Lease Principal Obligations - Hospital Debt Restructuring Agreement	782,096
Lines of Credit	178,050
Second Mortgage on Long-Term Care Facility	200,050
	<hr/>
Total Assets and Other Resources	<u>\$ 2,047,186</u>

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2000
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Capital Lease Obligation - Health Department Principal Payments (Note 5)	\$ 366,000
Capital Lease Obligation - Hospital Debt Restructuring Agreement Principal (Note 5)	782,096
Lines of Credit (Note 6)	178,050
Second Mortgage on Long-Term Care Facility (Note 6)	200,050

Payroll Revolving Account - Cash	4,481
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Fund Balances

Reserved:

Capital Projects Fund Type

CDBG-Grant Fund	163
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Unreserved:

General Fund Type

General Fund	216,697
Road and Bridge Fund	76,451
Jail Fund	2,010
Local Government Economic Assistance Fund	7,589
E-911 Fund	213,584
CSEPP-EMS Fund	15
Total Liabilities and Fund Balances	<u>\$ 2,047,186</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

GARRARD COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2000

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,914,797	\$ 1,528,966	\$ 964,503	\$ 66,874
Transfers In	232,807			226,617
Kentucky Advance Revenue Program	740,195	638,080	102,115	
Total Cash Receipts	<u>\$ 3,887,799</u>	<u>\$ 2,167,046</u>	<u>\$ 1,066,618</u>	<u>\$ 293,491</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,903,616	\$ 1,294,521	\$ 981,391	\$ 295,706
Transfers Out	232,807	232,807		
Capital Lease Principal Paid:				
Health Department	43,000	43,000		
Hospital	24,904	24,904		
Kentucky Advance Revenue Program Repaid	740,195	638,080	102,115	
Total Cash Disbursements	<u>\$ 3,944,522</u>	<u>\$ 2,233,312</u>	<u>\$ 1,083,506</u>	<u>\$ 295,706</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (56,723)	\$ (66,266)	\$ (16,888)	\$ (2,215)
Cash Balance - July 1, 1999	<u>573,232</u>	<u>282,963</u>	<u>93,339</u>	<u>4,225</u>
Cash Balance - June 30, 2000	<u>\$ 516,509</u>	<u>\$ 216,697</u>	<u>\$ 76,451</u>	<u>\$ 2,010</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2000
(Continued)

General Fund Type				Capital Projects Fund Type
Local Government Economic Assistance Fund	CDBG- Micro-enterprise Fund	E-911 Fund	CSEPP-EMS Fund	CDBG - Grant Fund
\$ 16,255 6,190	\$ 1,250	\$ 67,944	\$ 12,837	\$ 256,168
\$ 22,445	\$ 1,250	\$ 67,944	\$ 12,837	\$ 256,168
\$ 14,856	\$ 1,250	\$ 42,185	\$ 17,702	\$ 256,005
\$ 14,856	\$ 1,250	\$ 42,185	\$ 17,702	\$ 256,005
\$ 7,589	\$	\$ 25,759 187,825	\$ (4,865) 4,880	\$ 163
\$ 7,589	\$ 0	\$ 213,584	\$ 15	\$ 163

The accompanying notes are an integral part of the financial statements.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Garrard County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has determined that the Garrard County Memorial Hospital and Long-Term Care Facility (Hospital) should be included as part of the reporting entity. The hospital is to be audited by other auditors but no audit report has been issued for the hospital since the hospital year ended September 30, 1997; therefore, information about the hospital's financial position or results of operations is not included in this report.

Additional - Garrard County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Garrard County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Garrard County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Garrard County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), CDBG-Microenterprise Fund, E-911 Fund, and the CSEPP-EMS Fund.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Capital Projects Fund Type

Capital Project Funds Type accounts for financial resources to be used for acquisition of major capital facilities. The CDBG-Grant Fund of the Fiscal Court is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Garrard County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2000, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Operating Lease Agreements

The county had two operating lease agreements with the Kentucky Association of Counties Leasing Trust for the purchase of two trucks and an ambulance. The following schedule outlines the lease obligations as of June 30, 2000:

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 4. Operating Lease Agreements (Continued)

Description	Purchase Date	Maturity Date	Interest Rate	Principal Balance As Of 6/30/00
KACO Leasing Trust - Trucks	4/12/1999	1/20/2003	3.879%	<u>\$ 50,302</u>
KACO Leasing Trust - Ambulance	7/1/1999	6/20/2003	4.280%	<u>\$ 41,396</u>

Note 5. Capital Lease Agreements

A. Garrard County entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to construct a county health department in December 1997. The lease principal was \$450,000. Interest is 5.56 percent and paid monthly over a ten-year period. The principal balance of the lease as of June 30, 2000, was \$366,000.

Fiscal Year Due	Scheduled Interest	Scheduled Principal
2000-2001	\$ 19,293	\$ 45,000
2001-2002	16,747	47,000
2002-2003	14,067	50,000
2003-2004	11,242	52,000
2004-2005	8,283	55,000
2005-2007	<u>7,127</u>	<u>117,000</u>
Total	<u>\$ 76,759</u>	<u>\$ 366,000</u>

After entering into the lease agreement with the Kentucky Association of Counties Leasing Trust, the county entered into a sublease agreement with the Garrard County Public Health District. The terms, provisions, and stipulations of the sublease are the same as those set forth in the lease. All rental payments and other charges are to be paid by the Health District to the county and the county will thereafter make said debt-service payments. As of June 30, 2000, the Garrard County Health District was in substantial compliance with the provisions of the sublease.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 5. Capital Lease Agreements (Continued)

- B. On November 24, 1999, the Garrard County Fiscal Court entered into a lease agreement with First Southern National Bank of Garrard County to provide financing for the restructuring of short-term debt to long-term debt for the Garrard County Memorial Hospital. The principal amount of the lease agreement is \$807,576, with interest and principal payments due monthly through November 24, 2008 (maturity). Interest is a fixed rate of 8.75%. The principal balance of the lease as of June 30, 2000, was \$782,096.

<u>Fiscal Year Due</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2000-2001	\$ 65,013	\$ 64,975
2001-2002	59,094	70,894
2002-2003	52,636	77,352
2003-2004	45,713	84,275
2004-2005	37,913	92,075
2005-2008	<u>61,476</u>	<u>392,525</u>
Total	<u>\$ 321,845</u>	<u>\$ 782,096</u>

The Garrard County Memorial Hospital has agreed to pay the Garrard County Fiscal Court \$10,876.09 per month to cover a portion of the monthly debt service payments on this lease. As of June 30, 2000, the hospital was in substantial compliance with this agreement.

- C. The county also entered into a thirty-six month lease agreement with Bamill, Inc. on October 1, 1999 for the acquisition of two computers. Payments of \$278.43 are due the first day of each month for the life of the lease. At expiration of the lease on October 1, 2002, the County will have the option to purchase the computers for a buyout amount of \$1. The monthly payment obligations plus the buyout amount total \$10,025.

Note 6. Short-Term Financing

The Garrard County Fiscal Court approved several short-term financing agreements for the hospital to meet ordinary operating expenses and payroll. On February 3, 2000, a \$100,000 line of credit was obtained from First Southern National Bank, a \$78,050 line of credit was obtained on February 17, 2000, and a \$200,050 second mortgage was obtained on the Hospital on April 27, 2000. All of these principal balances were still outstanding as of June 30, 2000.

Note 7. Commitments and Contingencies

The county has assisted the Garrard County Memorial Hospital in obtaining an extensive amount of debt to meet payroll and operating expenses. As of June 30, 2000, outstanding principal of debt acquired for the hospital totaled \$1,160,196. Subsequent to June 30, 2000, an additional \$1,012,000 was obtained. Due to the large amount of financing the hospital needs to meet ordinary operating expenses and payroll, we question its ability to continue as a going concern.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2000
(Continued)

Note 7. Commitments and Contingencies (Continued)

There is a current judgment against Garrard County and Garrard County Memorial Hospital placed by Institutional Distributors Incorporated in the original amount of \$58,381.69 plus 18% interest from August 29, 2000, until paid. There has been payment of \$3,000 per month made on said judgment beginning November 1, 2000. There has also been a garnishment of approximately \$31,164.79.

National Wound Care, Inc. filed a lawsuit in Illinois against the Garrard County Memorial Hospital during the early part of 2000. The hospital is currently making payments of \$4,000 a month to National Wound Care, Inc. There have been discussions about entering into an agreed order of settlement, but no agreement has been executed. The hospital continues to make the \$4,000 per month payments, which was a part of the proposed settlement. The total amount owed has not been agreed upon between the parties involved.

Note 8. Subsequent Events

On August 27, 2000, the hospital administrator requested the fiscal court grant the hospital authority to borrow \$150,000 for a sixty day period to enable the hospital to make payroll and vendor commitments. The fiscal court approved the request.

On November 14, 2000, the fiscal court approved a \$312,000 line of credit for the hospital to make payroll and pay vendors.

On March 15, 2001, the fiscal court authorized a loan of \$300,000 from First Southern National Bank for the benefit of the Garrard County Memorial Hospital.

On May 16, 2001, the fiscal court adopted an emergency budget amendment to allow the hospital board to borrow up to \$250,000 from First Southern National Bank to make required payroll.

On June 6, 2001, the fiscal court entered into a \$4,500,000 lease agreement with the Kentucky Association of Counties Leasing Trust for the purpose of restructuring the debt obligations of the Garrard County Long Term Care Facility. The lease agreement calls for monthly interest payments to be made at a current rate of 4.62 percent. Principal payments are to be made annually on January 20, with the last payment scheduled for January 20, 2031.

Note 9. Insurance

For the fiscal year ended June 30, 2000, Garrard County was a member of the Kentucky Association of Counties' All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

GARRARD COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2000

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,867,216	\$ 1,528,966	\$ (338,250)
Road and Bridge Fund	1,036,010	964,503	(71,507)
Jail Fund	274,020	66,874	(207,146)
Local Government Economic Assistance Fund	14,856	16,255	1,399
CDBG-Micro-enterprise Fund	50,000	1,250	(48,750)
E-911 Fund	61,200	67,944	6,744
CSEPP-EMS Fund	14,470	12,837	(1,633)
<u>Capital Projects Fund Type</u>			
CDBG-Grant Fund	<u>500,000</u>	<u>256,168</u>	<u>(243,832)</u>
Totals	<u>\$ 3,817,772</u>	<u>\$ 2,914,797</u>	<u>\$ (902,975)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,817,772
Add: Budgeted Prior Year Surplus			510,290
Less: Other Financing Uses			<u>(808,099)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,519,963</u>

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SCHEDULE OF OPERATING REVENUE

GARRARD COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2000

GOVERNMENTAL FUND TYPES

	Totals (Memorandum Only)	General Fund Type	Capital Projects Fund Type
REVENUE:			
Taxes	\$ 944,632	\$ 944,632	\$
Excess Fees	91,518	91,518	
Intergovernmental Revenues	1,487,810	1,231,642	256,168
Charges for Services	293,698	293,698	
Miscellaneous Revenues	58,871	58,871	
Interest Earned	38,268	38,268	
Total Operating Revenue	<u>\$ 2,914,797</u>	<u>\$ 2,658,629</u>	<u>\$ 256,168</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

GARRARD COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 407,369	\$ 380,957	\$ 26,412
Protection to Persons and Property	868,321	742,962	125,359
General Health and Sanitation	261,656	294,511	(32,855)
Social Services	13,600	13,026	574
Recreation and Culture	8,700	10,788	(2,088)
Roads	842,308	868,750	(26,442)
Road Facilities		750	(750)
Debt Service	24,828	17,162	7,666
Administration	593,181	318,705	274,476
Total Operating Budget - All General Fund Types	\$ 3,019,963	\$ 2,647,611	\$ 372,352
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	740,195	740,195	
Capital Lease Agreement-			
Principal on Lease:			
Health Department	43,000	43,000	
Hospital	24,904	24,904	
TOTAL BUDGET - ALL GENERAL FUND TYPES	<u>\$ 3,828,062</u>	<u>\$ 3,455,710</u>	<u>\$ 372,352</u>

GARRARD COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2000
 (Continued)

Expenditure Categories	CAPITAL PROJECTS FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 500,000	\$ 2,719	\$ 497,281
Social Services		207,322	(207,322)
Capital Projects		45,964	(45,964)
TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE	<u>\$ 500,000</u>	<u>\$ 256,005</u>	<u>\$ 243,995</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable E. J. Hasty, Garrard County Judge/Executive
Members of the Garrard County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Garrard County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated May 17, 2001, in which we disclaimed an opinion on the financial statements. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of our work, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our work, we considered Garrard County's internal control over financial reporting in order to determine our procedures and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Garrard County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- County Debt Obligations Were Not Represented On Quarterly Report
- The Fiscal Court Should Monitor Audits Of County Component Units

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses.

- County Debt Obligations Were Not Represented On Quarterly Report
- The Fiscal Court Should Monitor Audits Of County Component Units

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 17, 2001

COMMENTS AND RECOMMENDATIONS

GARRARD COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2000

REPORTABLE CONDITIONS CONSIDERED TO BE MATERIAL WEAKNESSES

1. County Debt Obligations Were Not Represented On Quarterly Report

The Garrard County Fiscal Court authorized the County Judge/Executive to obtain, on behalf of the Garrard County Memorial Hospital and Long-Term Care Facility, multiple financing agreements through First Southern National Bank during fiscal year 2000. The State Local Debt Officer approved one lease agreement for \$807,000 on January 5, 2000. However, the county did not notify the Department for Local Government of two lines of credit and a second mortgage on the long-term care section of the hospital totaling \$378,100 as of June 30, 2000. Also, the County Judge/Executive signed only one of these promissory notes. The hospital administrator alone signed the other three notes. The county had a copy of the \$807,000 lease agreement, but no copies of the other three executed documents were in the county's files. Also, these obligations were not listed on the liability section of the county's quarterly report. We recommend that in the future, all county debt obligations be properly approved and reported to the Department for Local Government, and be listed on the liability section of the county's quarterly report.

County Judge/Executive's Response:

Financing the ongoing operations of the Hospital has become a difficult and cumbersome task. The Fiscal Court has worked diligently with the Hospital and local bank officials to keep the Hospital operation [sic] and liquid. Each line of credit and mortgage was secured with the full knowledge of the Fiscal Court. We have attached supporting documentation for your review. Debts of the Hospital are not reflected on the County's balance sheets, as a corporation that is distinct from the County operates the Hospital. All funds were borrowed in the name of the Hospital, and the Fiscal Court merely acted as a guarantor for the funds. The Hospital's administration has been replaced and the Hospital is currently restructuring its operations to strengthen its financial position. The Hospital is committed to abiding by all statutes and regulations controlling the borrowing of funds, and will implement policies to ensure that all future debt is properly approved and reported to the Department for Local Government. Furthermore, the Fiscal Court and the County Treasurer shall insure that all debt is properly reflected on the County's books from this date forward.

Auditor's Reply:

The guarantor (the county) is equally liable for the obligations of a principal debtor (the hospital). As disclosed in Note 8, the hospital continued, through the report date, to experience operating shortfalls resulting in the need for even more loan funds.

2. The Fiscal Court Should Monitor Audits of County Component Units

The Garrard County Memorial Hospital and Long Term Care Facility is a material component unit of Garrard County. The hospital is to contract its audit to be performed by other auditors. We have been unable to obtain an audit of the hospital since the September 30, 1997 audit. Since the hospital is a component unit of the county, we recommend the county require the hospital to contract audits to be done for 1998, 1999, and 2000 as well as all future years. We also recommend that the hospital start operating on a fiscal year consistent with the county, which would be fiscal years ending on June 30.

GARRARD COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2000
 (Continued)

2. The Fiscal Court Should Monitor Audits of County Component Units (Continued)

County Judge/Executive's Response:

The Hospital has contracted with Blue & Company ("Blue") to conduct financial audits for the fiscal years 1998 and 1999. However, due to the Hospital's financial troubles, the Hospital has not been able to make a full payment on its account with Blue. Blue, therefore, has withheld its final audit reports. The Hospital is committed to paying this account in full so that the final audit reports can be released. As the Hospital's fiscal year ends in September, now is a good time for the Year 2000 audit to be performed. The Hospital will make arrangements for this audit to be completed, and will include the Fiscal Court in all audit meetings. Final audits for the years 1998-2000 will be filed with the County, as will audits for all future years. It is the Hospital's intention to have all future audits completed within 6 months of the close of the fiscal year. The County will also take steps to change the Hospital's fiscal year to coincide with that of the County. The Fiscal Court also agrees that it will monitor audits of its County components.

Furthermore, although the Hospital has not undergone an audit since its 1997 taxable year, it has compiled cost reports for submission to the Federal Medicare program for each year since 1997. While these cost reports may differ somewhat from the information required for an audit, they do accurately represent the financial condition of the Hospital. The Hospital is willing to provide the Auditor with cost reports for the years 1998-2000.

Auditor's Reply:

The firm of PricewaterhouseCoopers (PWC) contracted to perform the 1998 audit. PWC completed fieldwork and provided a draft audit report to the hospital. The hospital did not pay PWC for work performed up to that point, and PWC withheld issuance of a final report for nonpayment. Blue and Company (Blue) contracted to perform the 1999 audit and was performing fieldwork when it became aware of the hospital's nonpayment of the prior audit fee. Blue then withdrew from the engagement.

In light of these issues, professional standards would preclude either PWC or Blue from issuing an opinion as a result of these audits because the hospital's nonpayment has created an impairment of these auditors' independence.

While the hospital's cost reports do present financial information, they are unaudited. Until such time as the hospital presents the county with audited financial statements, the county will not be able to effectively monitor the hospital.

PRIOR YEAR FINDINGS

The Fiscal Court Should Monitor Audits of County Component Units

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

GARRARD COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

Appendix A

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM


GARRARD COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

The Garrard County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



E.J. Hasty
County Judge/Executive



Louise Robinson
County Treasurer